

Market Commentary for November 2008

Sliding Deeper Into Recession

The U.S. economy experienced another volatile and dispiriting month in November as it became clearer that the nation is in a full-blown recession. U.S. Gross Domestic Product (GDP) growth for the third quarter was estimated to be -0.5 percent, according to a report released in late November. This figure is lower than the -0.3 percent advance estimate released in October. The negative growth was due largely to a confluence of factors, including the ongoing credit crisis, the depressed housing market, a massive drop in consumer spending, and a further fall in corporate profits. The economy is expected to continue to contract well into 2009.

The unemployment rate rose to 6.7 percent, the highest level in 15 years, from 6.5 percent the previous month. As of November, the U.S. economy has shed a remarkable 1.9 million jobs in 2008. If part-time workers are excluded from the picture, it is estimated that the unemployment rate is actually more than 11 percent. The consensus is that labor market conditions will continue to worsen for the foreseeable future due to severe cutbacks by retailers and manufacturers and the massive restructuring in the financial services sector.

This has all taken a toll on the consumer's outlook and spending habits. The University of Michigan Consumer Sentiment Index dropped 2.3 points in November to 55.3, the lowest level since 1980. The main concerns are the labor market and the financial markets for those with an eye on retirement. In the third quarter, despite a sharp decrease in fuel prices, consumer spending plummeted 3.7 percent annualized, which is also the largest drop since 1980. The savings rate soared to 2.4 percent in October from 1.0 percent in September. This frugality has caused prices to fall. The Consumer Price Index decreased by 1.0 percent in October from the previous month, eradicating previous fears of inflation and instead rousing concerns about deflation.

Sector Review

U.S. Treasuries: Increased stress in the economy drove Treasury yields down further as investors continue to flee to safer Treasury investments. Expected further weakness in Gross Domestic Product (GDP) and further labor market deterioration in the near-term caused the market to expect a continuing Federal Reserve monetary policy easing. This added to the price rally in Treasuries. The 10-year note yield dropped to a 2.92 percent yield from a 3.96 percent yield the prior month. The two-year note yield decreased to a 0.98 percent yield from a 1.55 percent yield while the three-month Treasury bill saw yields plunge to 0.01 percent from 0.37 percent as investors raced to the most risk averse product available. (Rates and prices maintain an inverse relationship. Prices decrease as yields increase).

Commercial Paper: The Federal Reserve's Commercial Paper Funding Facility (CPFF) was introduced to assist the commercial paper (CP) market throughout the current credit crisis and help further assist the fixed income markets in the near-term. This program allowed the Fed to buy top tier asset-backed commercial paper (ABCP) and unsecured CP from the market at specific terms. The program is in place until January 30, 2009 and can be extended if necessary. One-month, top-tier, higher quality ABCP names traded between 1.50 percent and 2.00 percent and three-month paper traded between 1.65 percent and 2.25 percent.


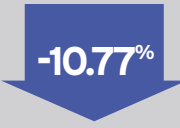
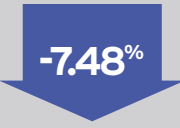


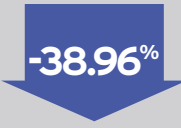
Predictably, businesses are not faring well either. In the third quarter, corporate profits decreased 3.8 percent annualized, making for five successive quarters during which they declined. Durable goods orders fell 6.2 percent in October, which was nearly double the preliminary estimate. All sectors of the manufacturing industry have been negatively affected by the recession. In November, the Institute for Supply Management's (ISM) manufacturing index tumbled a further 2.7 points to 36.2, the lowest level the index has recorded since 1982. Retail sales dropped 2.8 percent in October. This was another fairly broad-based decline, although restaurants and pharmacies experienced marginal gains.

There is still no real silver lining on the housing front. Existing-home sales slid 3.1 percent month-over-month in October to 4.98 million annualized units and the median home price dropped 11 percent year-over-year in the same month compared to a 9.1 percent decline in September. New-home sales decreased 5.3 percent in October to an annualized rate of 433,000.

There has been no further fed funds rate cut since our last report. The Federal Open Market Committee (FOMC) will meet again on December 16 to discuss lowering the rate from the current 1.0 percent. Fed funds futures is presently pricing in a 54 percent probability that the Fed slashes the rate 0.25 percent. The financial markets are likely to remain in flux and the consumer is likely to remain apprehensive at least until the new Obama administration formally unveils its plans to address the recession. In this transitional period, it is still not yet clear what sort of economic stimulus package will be implemented by President-elect Obama, nor is it apparent what form the ever-changing Wall Street rescue plan will take under the new president and treasury secretary. Until the new government is in place, the economy will likely be characterized by volatility.

U.S. Government Agencies: Agencies continued to increase their offerings in the discount note space throughout the month. Yields for short discount notes continued to drop throughout the month as investors were welcoming the ample issuance along with news that the Federal Reserve was planning on buying back certain agency securities. Agency yields at month-end on three-month paper yielded near 0.50 percent, six-month paper yielded 0.90 percent, and 12-month paper yielded 1.50 percent.

Strategy: The Federal Reserve has maintained its target rate at 1.00 percent. The market is expecting further cuts by the Federal Reserve of its target rate to possibly as low as 0 percent in the next few of meetings due to the continued weakness of the economy and the financial markets. The Fed's efforts continue to be focused on the creation of vehicles to help the banking system operate as orderly as possible and identifying ways to help bring about a recovery from this recession. Our portfolio strategy for short-term accounts has been to remain defensive regarding investments in non-government guaranteed entities and trying to find an optimal mix between keeping ample liquid cash and finding opportunities to extend to take advantage of yield curve steepness.

DJIA		NASDAQ		S&P 500	
	-5.31%		-10.77%		-7.48%
	-33.44%		-42.10%		-38.96%
Month	Year-to-Date	Month	Year-to-Date	Month	Year-to-Date

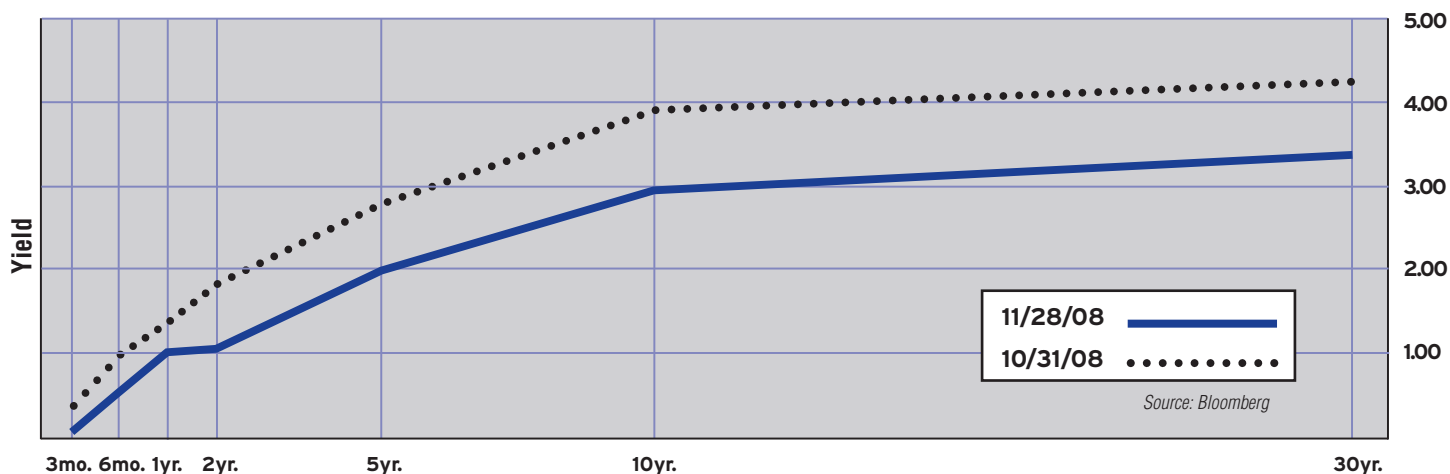
The opinions expressed above are those of TrustIndiana and are subject to change without notice. All statistics represent month-end figures unless otherwise noted.

Market Summary for November 2008

Monthly Market Summary - Week-ending Rates and Yields

	11/07	11/14	11/21	11/28	4th QTR AVG	3rd QTR AVG	2nd QTR AVG	1st QTR AVG
Overnight Rates								
Effective Fed Funds	0.27	0.34	0.57	0.52	0.60	1.90	2.07	3.19
Repurchase Agreements	0.10	0.10	0.40	0.25	0.26	1.89	2.02	2.67
Discount Rates								
1 Month Treasury Bill	0.23	0.07	0.04	0.02	0.15	1.33	1.42	2.00
1 Month Agency Disc.	0.26	0.44	0.20	0.22	0.71	2.21	2.06	2.80
1 Month Com'l Paper	1.04	1.16	1.18	1.52	2.35	2.49	2.45	3.18
3 Month Treasury Bill	0.31	0.19	0.07	0.05	0.39	1.49	1.61	2.00
3 Month Agency Disc.	0.80	0.95	0.81	0.68	1.48	2.42	2.16	2.77
3 Month Com'l Paper	2.10	2.15	2.04	2.17	3.01	2.81	2.67	3.11
6 Month Treasury Bill	0.77	0.73	0.42	0.43	0.82	1.78	1.82	2.07
6 Month Agency Disc.	1.44	1.51	1.33	1.10	2.03	2.69	2.25	2.64
6 Month Com'l Paper	2.43	2.52	2.51	2.35	3.13	3.08	2.78	3.01
Yields								
1 Year Treasury	1.20	1.14	0.83	0.90	1.20	2.16	2.07	2.07
1 Year Agency	2.55	2.41	2.16	1.97	2.63	2.91	2.68	2.58
2 Year Treasury	1.33	1.21	1.10	0.99	1.39	2.40	2.40	1.97
2 Year Agency	2.80	2.67	3.16	2.62	2.94	3.22	3.03	2.60
5 Year Treasury	2.56	2.33	2.03	1.92	2.50	3.13	3.15	2.70
5 Year Agency	4.02	3.78	3.83	3.15	3.94	4.09	3.88	3.45

Historical Yield Curve



Key Economic Indicators

	For the Period	Date of Release	Expected	Actual	Prior
Unemployment Rate	November	12/05	6.8%	6.7%	6.5%
Consumer Price Index	October	11/19	4.0%	3.7%	4.9%
- Less Food and Energy	October	11/19	2.4%	2.2%	2.5%
Consumer Conf. (CB)	November	11/25	38.0	44.9	38.8
FOMC Rate Decision		10/29	1.00%	1.00%	1.50%
Gross Domestic Product	3QP	11/25	-0.5%	-0.5%	-0.3%

TrustINDiana

Office of the Treasurer of Indiana
 242 State House, 200 W Washington St.
 Indianapolis, IN 46204
www.trustindiana.in.gov